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DRUG STORE NEWS

Vol. 12/No. 20 **Our 62nd year of serving chains, wholesalers and high-volume independents** Published by Lebhar-Friedman Inc. Nov. 5, 1990

LATE NEWS

• SAN FRANCISCO — Steve Ferguson, who left his vp-marketing position at Douglas Drug in Providence, R.I., Sept. 10, has been named executive vp-operations and marketing at Drug Barn, a five-store deep-discount chain operating in the Bay Area. Ferguson was vp-marketing at K&B before going to Douglas.

• RICHMOND, Va. — Wholesaler Owens & Minor, Inc. posted record sales for the third quarter ended Sept. 30, up 18.7 percent to $310.0 million. Earnings climbed from $1.3 million to $2.5 million for the period.

FEATURES

Private label gains ground

Aggressive pursuit of house lines seen as a 'no-lose' situation. **Trends, page 35.**

Trade show coverage

Staff reports from Affiliated/Associated's fall show and the inaugural GM/HBC conference are found on **page 3.**

Drug Store News

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Revco creditors prevail in court

By James Frederick

AKRON, Ohio — U.S. Bankruptcy Court Judge Harold White refused to extend the deadline within which Revco D.S. has exclusive right to file a reorganization plan aimed at lifting the debt-laden company out of Chapter 11. The decision was a green light for Revco's creditors and other potential bidders to step up to the plate with their own plans to reorganize and effectively acquire the company.

The Oct. 23 ruling gave Revco and its board of directors only until the end of October—little more than a week at press time—to accomplish a task that has eluded the board for more than two years: to develop a consensual plan of reorganization that both creditors and equity holders could live with. In response to a motion by Revco's creditors seeking to void the company's right of exclusivity, Judge White also reversed an earlier ruling that gave the company until Jan. 31, 1991 to obtain approval of its own plan from all parties.

"The debtors and the board have squandered the time given to them [to work out a plan], and the motion to extend is denied," the judge said in his ruling. "You've got eight days now to negotiate, and you'd better use it."

Judge White also warned, "If the debtor [Revco] files a plan within that time, it better not be a legal tactic to delay, because the court has the means to make some of its own determinations."

Presumably, those "determinations" could include a "cramdown"—bankruptcy law parlance for a situation in which a court forces its own settlement on a bankruptcy case after negotiating parties have failed to reach a financial reorganization plan on their own.

The court's decision was a major victory for Revco's three classes of creditors, who announced their own unsolicited financial plan for a post-bankrupt Revco Oct. 3. The ruling clears the way for consideration of that rival plan and sets the stage for an open struggle for control of Revco.

The creditors' reorganization plan was hammered out in more than 13 months of sometimes heated negotiations between the committees representing bondholders, lending

See **Revco,** *page 45*

American Drug said to put Western Oscos on the block

OAK BROOK, Ill. — American Drug Stores is reported to be shopping out scores of Osco drug stores in six Western states as part of a bid by parent company American Stores to further cut debt and reduce operating expenses.

American is not commenting on the reports, but sources both inside and outside the company indicate that some Osco stores in a number of markets will be sold if the price is right. One company insider said the stores marked for sale are "in bits and pieces and scattered around."

According to various well-placed sources, American Drug may have as many as 106 Osco stores on the selling block, with Shearson Lehman Hutton's investment banking

See **American,** *page 45*

SupeRx Corp. bailing out of Arizona

By David Vaczek

PHOENIX — SupeRx Corp., operating under Chapter 11 protection, will auction its remaining 23 drug stores in Arizona because it has failed to secure funding for inventory, according to the chain's lawyer, and papers filed in bankruptcy court here.

"They didn't have the financing to pay for inventory," Judy Dworkin, SupeRx's lawyer, told *Drug Store News*. Dworkin said the decision was made last month in a meeting with creditors, including the unsecured creditors committee and Lincoln Savings & Loan, a secured creditor and the chain's chief lender.

"Everybody believes [the store's assets] should be sold before the height of the Christmas season, to provide a new owner with the boost of seasonal sales," Dworkin said.

With the auction of the Arizona stores, which at press time was set for Oct. 31 in U.S. Bankruptcy Court here, SupeRx management will be left with the Medicare-Glaser Corp. The St. Louis-based chain, acquired in 1988 by SupeRx, has filed a separate Chapter 11 petition and will continue in its attempt to arrive at a plan of debt reorganization under the court's control. Medicare-Glaser, which entered the bankruptcy with 94 stores, had 83 stores as of last month, according to a chain spokesman.

Continued on page 46

SupeRx Corp. will auction its 23 Arizona drug stores.

Medco to stress lower-cost 'script writing

Drug Store News Exclusive

By Ken Rankin

FAIR LAWN, N. J. — Medco, the nation's largest mail-order drug dispensary, is about to launch an innovative new counter-detailing program using pharmacists to urge prescribers to select lower-cost therapeutic alternatives.

If successful, the company's new "Prescriber's Choice" scheme could sharply reduce Medco's pharmaceutical product costs and make the mail-order distributor an even more formidable competitor for retail drug stores.

But on the downside, the program is open to criticism that Medco is promoting a potentially dangerous variation of therapeutic substitution.

Moreover, opponents of mail-order drug dispensing could well argue that Prescriber's Choice is designed to boost Medco's profits at the expense of patients.

Indeed, the therapeutic alternatives promoted by Medco's pharmacist-telemarketers are drugs made by manufacturers who contract for this counter-detailing service. As a result, it could be said that Medco is promoting the products of the highest bidder, rather than the cheapest or most appropriate therapeutic alternative.

Although Medco is not planning to unveil its new "Prescriber's Choice" program until the end of this year, company officials previewed the scheme for financial analysts earlier this fall. The response from the Wall Street gurus was uncharacteristically enthusiastic.

Citing company estimates that the new counter-detailing scheme "could add an additional 100 to 400 basis points to operating margins beyond fiscal 1992," Merrill Lynch bullishly predicted that Medco will enjoy "rapid earnings-per-share growth for the foreseeable future."

Analysts from Morgan Stanley, meanwhile, upgraded their earlier earnings projections for Medco and issued a "buy" recommendation for the company's stock, based in large part on the profit potential of Prescriber's Choice.

For their part, Medco officials are counting on the program to boost their already dominant market share in the booming mail-order Rx market. During their meeting with the financial community, company execs revealed that 22 mil-

See **Medco,** *page 45*

NEWS IN BRIEF

Dunaway seeking retail re-entry

ATLANTA — Chain drug veteran Bill Dunaway is working to put together financing for a new retail venture in suburban Gwinnett County, one of the nation's fastest-growing metropolitan areas and site of two former Dunaway drug stores. Dunaway sold the 16-store, family-owned chain to Jack Eckerd Corp. in May 1989.

Plans are to open a "fresh market" retail concept on a site of more than 80,000 square feet. The store would anchor itself with high-quality, fresh produce, high-quality meats and fresh seafood, dairy, beer and wine, a scratch bakery, ethnic H&BAs and dry groceries. The store will not feature a pharmacy or mainline H&BAs, Dunaway said.

"I have the management team and the location in place," Dunaway said. "This will be a destination-type store for an upscale market, with a lot of knowledgeable service on the floor and a lot of sampling, along the lines of a Stew Leonard. The idea is to open more than one."

Dunaway signed a three-year non-compete clause with Eckerd last year, barring him from drug retailing until 1992. Since then, he has taught college courses, run for mayor of Marietta, Ga., and overseen other business interests, including partial ownership of Atlanta's well-known Abbey Restaurant.

American taps Miller for Alpha Beta; management shifts at American Drug

SALT LAKE CITY — American Stores Co. has named Mike Miller chairman and ceo of its Alpha Beta division in southern California. Miller, a long-time company executive, last served as senior vp-government relations.

Named president of the LaHabra, Calif.-based supermarket chain is Roger Wilhelm, who has been acting president.

To settle an antitrust suit, American struck a deal with the California attorney general earlier this year to divest most of its Alpha Beta stores within the next five years, and merge the few remaining Alpha Beta units into its Lucky Stores division. Presumably, Miller will oversee that process.

At the American Drug Stores division in Oak Brook, Ill., several changes in regional and headquarters management were made following the departure of Larry LaRock from the company.

LaRock has resigned as vp in charge of the Southwest region Osco stores, and has been replaced by former Eastern region vp Richard Davis, who has been promoted to executive vp level.

Named new vp in charge of the Eastern region, based in Cambridge, Mass., is Larry Wahlstrom, who last served as vp in charge of advertising and marketing development. Replacing Wahlstrom in that post is Neil Stacey.

O&M to sell Harbor assets

RICHMOND, Va. — Owens & Minor plans to sell the primary operating assets of its wholly owned subsidiary, Harbor Medical Inc., which makes sterilized procedure trays, to Sterile Concepts as of year-end. Owens & Minor also announced it had reached a five-year distribution agreement with Sterile Concepts.

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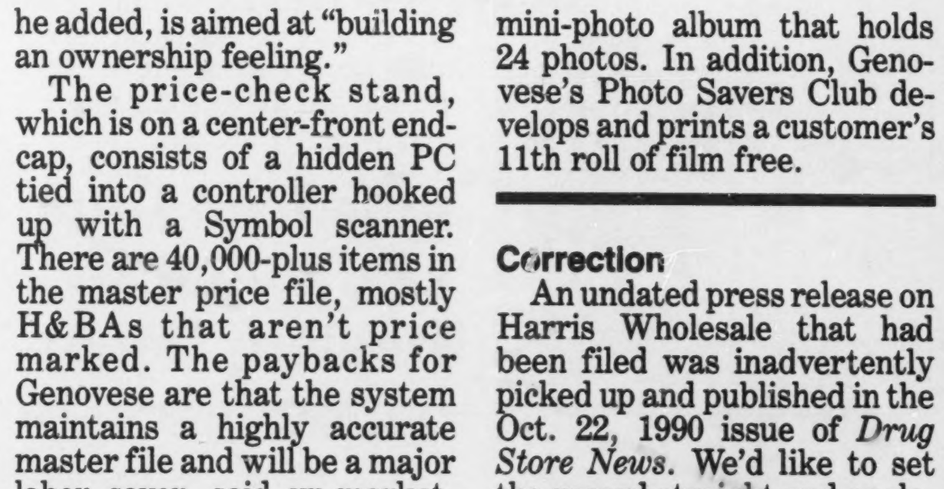
Genovese grows new ideas at L.I. 'greenhouse store'

By Susan Ball

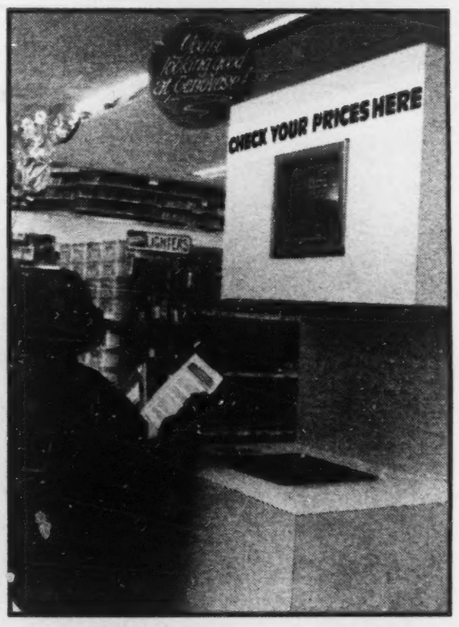
MELVILLE, N. Y. — Genovese Drug calls the new store it recently opened in Bay Shore its "greenhouse store" because the chain is growing its ideas there. Among them:

- Genovese's first "senior manager" position, intended to give the store manager more autonomy in merchandising and other decisions affecting his store.
- a price-check kiosk where customers can scan bar-coded items that aren't price marked.
- an IBM POS system that eventually will integrate all the store's computer systems.
- a state-of-the-art one-hour photofinishing lab that incorporates features Genovese has been perfecting in its two other in-store photofinishing labs.

The new store, set in a renovated shopping center in the Long Island community of Bay Shore, also has some fresh decor features: mirrors used as energy-efficient reflector-niches for fluorescent ceiling lighting, as well as to accent upper walls and the tops of support columns; simple but snappy signage that quickly orients customers to the store's layout; and sleek



Genovese's busy one-hour photo lab shouts photo in its up-front location at new Bay Shore store. The center carries one of the largest film selections in the New York market.



Customer at Genovese's new store in Bay Shore, L.I., checks the price of some items at the price-check kiosk positioned on a front endcap. Some 40,000 items, primarily H&BAs, can be checked on the system, which Genovese is testing.

permanent aisle modules for special displays.

The first senior manager, Mike Dellaro, has been given more leeway, within corporate guidelines, in making buying and merchandising decisions and in the ways funds are allocated for things like fixtures and advertising. For example, he will be able to do some localized advertising.

Senior vp Allan Patrick said Genovese has been leaning toward giving managers more autonomy for some time. "Each store is unique, and we've always encouraged our store personnel to get involved in local communities." The senior manager position, he added, is aimed at "building an ownership feeling."

The price-check stand, which is on a center-front endcap, consists of a hidden PC tied into a controller hooked up with a Symbol scanner. There are 40,000-plus items in the master price file, mostly H&BAs that aren't price marked. The paybacks for Genovese are that the system maintains a highly accurate master file and will be a major labor saver, said vp-marketing Don Gross.

To activate the system, a customer simply pushes a starter button, passes an article over the scanner, and looks for the item and price to appear on the computer screen. The process can be repeated for several items, and although items aren't subtotalled, customers can get a rough idea of how much they've spent so far.

Genovese is testing an IBM POS system in this store, although eight other stores are on SASI (Store Automated Systems, Inc.). More than 90 percent of merchandise is being scanned in this Bay Shore store, Gross said. In addition to checkout, scanners are located in the cosmetics department, the photo center and pharmacy.

This store is equipped with Synercom's pharmacy computer system, which the chain is phasing into its stores as the second generation of pharmacy computers. Eventually, Gross said, the pharmacy and front-end systems will be integrated into a single system that can be polled daily.

Positioned in the right front corner, the photo center makes a dramatic impression as customers enter the store. Within two weeks of the store's opening, the photo lab was processing 400 rolls a week. A feature that has helped boost Genovese's photo business tremendously chainwide, Gross noted, is that customers' 4-inch-by-6-inch glossy prints are returned in a free, soft-plastic mini-photo album that holds 24 photos. In addition, Genovese's Photo Savers Club develops and prints a customer's 11th roll of film free.

Correction

An undated press release on Harris Wholesale that had been filed was inadvertently picked up and published in the Oct. 22, 1990 issue of *Drug Store News*. We'd like to set the record straight and apologize for the error.

Jack Furio, who had been executive vp-key accounts at Harris, joined Martin Smith Associates in July as partner. Martin Smith Associates of Dublin, Ohio is a sales and merchandising specialist concentrating on H&BA lines. Lowell Smith is the other partner.

At Harris, a recent reorganization of division management has led to the following appointments: Lewis Mead, vp-Atlanta; Horace Kirkland, general manager-Atlanta; Bill LaGamba, general manager, western Pennsylvania; Wally Hink, vp and general manager, Florida; William Hinchcliffe, general manager, New England.

In a separate move, John Nixon has been promoted to corporate group vp reponsible for purchasing, sales and corporate planning.

Michael Visnich has been named vp-retail marketing. Reed Klein, director-marketing services, reports to him. Scott Tepper, manager-corporate merchandising, in turn reports to Klein.

Phil Kalwat is now director of operations for General Medical Corp., a sister company.

A revamping of Harris's Institutional Sales and Marketing department led to several appointments: Tom Ferkovic, director of institutional marketing; Craig McMillian, director of institutional sales; Paul Flach, regional institutional sales manager; Alex Tanazevich, institutional product manager.

Walgreen's fiscal 1990 sees sales top $6B mark

DEERFIELD, Ill. — Lending credence to the old maxim that nothing succeeds like success, Walgreen Co. racked up strong gains in sales, earnings and store count in fiscal 1990, smashing through the $6 billion sales mark and opening 104 new stores in the past year.

The nation's top drug chain produced a 12.4-percent gain in sales for the year ended Aug. 31, to $6.05 billion. Net earnings advanced 13.2 percent, to $174.6 million.

In the fourth quarter, sales advanced 11.3 percent to $1.49 billion, with net hitting $40.4 million, compared with $33.7 million the previous year. Walgreens' board of directors announced a 15-percent hike in the dividend, to 92 cents a year.

Walgreens' expansion pace continued at a rapid clip for the year, as well. The chain's 104 new drug stores and two RxPress retail pharmacies brought store count near the 1,600-unit level. The chain also remodeled 165 stores during the year, and will step up remodeling efforts this year.

In October, Walgreens also completed its takeover of Lee Drug, a nine-store chain operating in New Hampshire and Massachusetts. The Lee stores will be converted early next year, according to the company, strengthening the chain's relatively new market presence in New England.

"Since 1983, we've improved market share in each of our top 10 markets," noted

Continued on page 6

Kinney Drug at head of POS class with chainwide scanning rollout

By David Vaczek

GOUVERNEUR, N.Y. — Kinney Drug has joined a distinct chain drug minority, with its recently completed chainwide installation of an advanced POS scanning system in all 32 stores.

The upstate chain (with six stores in Vermont) made the leap from a hodgepodge of mechanical non-computerized cash registers to an IBM system after trying out various alternatives for five years, Steve Hayden, vp-MIS, told *Drug Store News*.

After a two-store pilot that began last fall, the rest of the stores were equipped with IBM 4683 registers and IBM drug chain POS software this summer, said Hayden.

The typical setup in stores averaging 7,500 square feet is one IBM PS/2 controller, five registers, and a combination of vertical and horizontal slot scanners. Each store also has a Telxon portable, for cycle inventory, and price audit via radio frequency.

F&M Distributors, the deep discounter, has been the only large retailer with a full chainwide scanning rollout. Many smaller chains, and some larger ones, have wrestled with cost justification of scanning systems.

Hayden said elimination of item stickers won't be among initial savings since chain executives feel that consumers want sticker pricing: "Our customers are not used to [UPC codes]. I think they expect price tags."

Kinney expects to pay for the $40,000-per-store system

in about one-and-a-half years. A key area of savings, Hayden believes, will be in refined merchandising from the store's sales reports. Other cost savings will be in automating store's bookkeeping, greater pricing accuracy, faster implementation of price changes, faster customer checkout, and consistent training for associates.

Kinney sent three people—two from MIS and one from operations—to a week-long IBM training session on how to use the system and how to "pre-sell" it to the store associates. Kinney developed training manuals and a video for associates that covered installation, operation and training.

With POS installed, Hayden is now focusing on integrating the front-of-store system with a new pharmacy system. Last year, Kinney put in a General Computer Corp. system with NEC Astra hardware.

Working with IBM, GCC and Telxon, MIS is now writing an interface between the two systems to allow creation and use of a single file of sales information, allowing access to pharmacy pricing from any register.

MIS is also writing a program for breaking up the day's-end sales information from the stores so it can be meaningfully used by buyers and operations.

The next major project will be creation of a perpetual inventory system that will employ IBM's in-store inventory management software to allow automatic updating of the inventory and creation of orders.

Kinney's MIS staff now numbers 10, as the chain prepares to open its 33rd store in Manlius, N.Y.

AADS's fall meeting shows plenty of life in the buying group

ATLANTA — Coming off an upbeat, largely successful fall meeting and buying show, Affiliated/Associated Chain Drug Stores (AADS) can cite Mark Twain's famous retort to its detractors: News of its demise has been exaggerated.

The mid-October show drew 133 vendors, up from 128 last year, more drug chain representatives and a record number of guests. Much of its success stemmed from furious, last-minute organizing and recruitment by a revamped AADS staff headed by new president Jim Devine, the fourth president in the past 20 months for the organization.

See further coverage next issue on show presentations and a consumer panel on shopper preferences.

The improved attendance was matched by the upbeat tenor of the show itself, and by Devine's tireless efforts to gauge the needs of members and suppliers during the three-day event. Devine set the tone himself in opening remarks Oct. 19, when he acknowledged the aging organization's past problems and called on members and associates for their help in revamping AADS from top to bottom.

"I need your help," he said. "We know we have to make some changes in our organization, and the board has authorized me to make the changes needed to bring this organization into the 1990s."

Devine added that "the past is behind us," and reiterated that AADS remains "the only buying association of the chain drug industry."

New services

Currently, Devine said later, AADS is working on a new mission statement and a variety of new services for its small- and medium-sized chain members. Among those services are likely to be new advertising vehicles for members—"like a 'TV week' sort of thing for the stores free to members," Devine said—as well as videotaping of show presentations for use by drug

See **Affil./Assoc.,** *page 45*

Rich Landers of Drug Emporium (right) examines product at Warner-Lambert booth.

Type of store where product is most often bought

(Respondents who bought product in last three months)

	Base	Super-market	Drug store or discount drug store*	Discount or mass merchan-diser	Some other type
Oral care	1,739	42%	32%	23%	3%
Deodorants	1,681	40	31	24	5
Greeting cards	1,632	20	34	17	29
Shampoo	1,595	34	31	25	10
Non-prescription medication	1,408	28	48	21	3
Batteries/flashlights	1,322	31	19	42	8
Light bulbs	1,226	39	13	37	11
Photo film	1,220	21	29	41	9
Skin care products	1,205	20	44	22	24
Cosmetics	1,086	12	32	23	33
Women's hosiery	1,048	22	17	29	32
School/home office supplies	971	11	18	44	27
Vitamins	873	24	40	19	17
Video cassettes	660	11	11	60	18
Kitchen gadgets	613	30	6	49	15
Cook/bakeware	420	20	4	56	20

*In the original study, figures for drug stores and discount drug stores were broken out separately.

Source: FMI/GMA study

GM/HBC price issues counter convenience, food retailers told

By James Frederick

HOUSTON — More than 200 supermarket retailers came here last month with a mission: to become better merchants of health and beauty aids and general merchandise.

They left armed with a wealth of facts to support what they already suspected: that their strongest weapon in the battle for non-foods sales against drug and discount store retailers was their built-in strength as convenient, one-stop shopping outlets.

But they also came away with new research findings which confirm that consumers continue to shun food stores when it comes to many of their non-foods needs, in spite of the one-stop convenience factor. The reason: lingering perceptions among shoppers that supermarkets remain high-priced outlets for many GM and H&BA categories.

The occasion was the first

Continued on page 40

OPINION

Finally, real numbers on product intros

IN THE MARKET
BRUCE BUCKLEY

It costs a bundle to introduce a new product. It also costs plenty to get rid of a flop. No one argues against those propositions. But who should pay for the retailer's portion of the costs? The manufacturer? That's what many retailers believe. After all, their argument goes, manufacturers have exacerbated the problem. In clawing for shelf space, they've created a torrent of product introductions, most of them unnecessary line extensions that do virtually nothing to build real category growth. One study, for example, shows the number of upfront intros tripling in the past decade. I don't have to tell you how many items in this growing stream become lasting winners. Damn few.

Then there's the other side of the argument. Isn't the manufacturer already shouldering a disproportionate share of (at least) the introductory costs through research and development and consumer advertising? Shouldn't a retailer assume part of the burden as a cost of doing business? And, whoever said retailing should be risk-free, anyway? Failures and markdowns have always been part of the business. No pain, no gain.

Besides, the argument goes on, manufacturers can only give up so much margin. If a retailer wants a neatly wrapped guarantee, he'd better be prepared to give up other perks that have more potential for building the business—like some of his co-op allowances. There's no free lunch, is another way of putting it.

These arguments and counter-arguments have grown in intensity as supermarkets, and later (and to a much lesser extent) drug chains, have tried to exact up-front money from manufacturers seeking to introduce new products. The controversy over these so-called slotting allowances (and their grimmer cousins, failure fees) has generated lots of heat, of course, but not much light.

Now comes a study that, for the first time, puts some real numbers on the cost of introductions—from research and development at the manufacturing end to wholesalers' and retailers' actual, real-time costs of putting these products into distribution—and of taking them out if they fall flat. This new study is the product of more than a year of research under the aegis of six food and drug associations, including NACDS, the Food Marketing Institute and the Grocery Manufacturers Association. The consultants who carried out the study are from the highly respected accounting firm Deloitte & Touche.

Their report covers a number of actual product introductions and deletions over a range of categories, and apportions and totals up the true costs incurred by manufacturers, wholesalers, retailers and, in the case of food product intros, food brokers. Although the costs are not meant to be projectable, the process through which they were attained can serve as a valuable template for drug retailers who want to do cost measurements based on their own actual experience. That will be the ongoing legacy of this pathfinding study.

Perhaps it will help move retailers away from the "protection money" game and into sharing with manufacturers the investment and risks of total marketing programs. That process has been practiced more successfully in the chain drug industry, where retailers and manufacturers have developed some cohesive relationships under the umbrella of NACDS, than among supermarkets, where conflicts have been fierce and long-lasting.

The downside may be that, because the study confirms the heavy costs of introductions and deletions, it will be used by some retailers to justify a stepped up demand for slotting allowances and failure fees. That would be a mistake, in my opinion.

(Copies of the study by the Joint Industry Task Force on Product Introductions and Deletions may be purchased at $10 each from NACDS, 413 N. Lee St., Alexandria, VA 22314.)

You can never have too much good will

WASHINGTON PERSPECTIVE
KEN RANKIN

One of this industry's strengths has always been the brazen willingness of drug chains to steal ideas from each other.

One chain shows some success with in-store optical centers and half a dozen others start testing the same waters.

Somebody else merges a drug store with a supermarket, and suddenly we're up to our ears in combo stores.

Another chain offers prescription discounts to senior citizens and. . . well, you get the picture.

At the same time, I've always felt that a key weakness of the industry was the failure of both chains and independents to seize opportunities to project a positive image of drug store retailing.

Now, don't get me wrong. . . I'm not saying that the industry has a negative image. But I am saying that the nation's drug stores are the Good Guys, and it sure would be nice if everyone recognized that fact.

Here's a two-step plan to capitalize on one of the industry's main strengths in order to bolster the public's appreciation of drug store retailers.

Step One: Copy Jack Eckerd's new policy supporting U.S. military reservists stationed in the Middle East. *(See* Drug Store News, *Oct. 8, 1990, p. 1.)*

Back on the same day that President Bush activated the military reserves in response to the Iraqi invasion of Kuwait, Eckerd CEO Stew Turley announced that reservists employed by the chain who are called to active duty will not be subjected to economic hardship.

Under the new Jack Eckerd policy the company will make up the difference between any affected employee's military pay and his or her civilian salary while on active duty.

While it's not yet clear whether this new policy will earn Turley a place in Heaven, it has earned Jack Eckerd immeasurable good will here in Washington.

Indeed, in a speech to the U.S. Senate recently, Sen. Bob Graham (D-Fla.) called attention to the chain's pay program for employee reservists while outlining "the sacrifices of corporate America in support of American reservists" in the Persian Gulf.

"For many families, it means peace of mind for the brave reservists sent halfway around the world to augment our military mission," he said. "At home, it means mortgages and tuition will be paid" and "families can put food on the table when breadwinners are gone."

Significantly, however, Graham didn't hear of Eckerd's program from the chain. Rather, he learned of it by pure chance while working with other volunteers to clean up Tampa Bay earlier this fall.

One of those volunteers, a Marine Reserve officer named Moises Suarez who works for Eckerd, just happened to tell Graham "how much it meant for him that his company offered to maintain his salary if he was called up for duty."

Step Two: Don't imitate Jack Eckerd's modesty. When you take action that reflects positively on your company or on the drug store industry as a whole, let everyone know about it!

Remember, you'll never have too much good will—not even here in Washington.

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High-price image haunts supermarkets in non-foods

HOUSTON — Consumers still think of supermarkets as being higher-priced than their competition in many general merchandise and health and beauty aids categories, according to new research from the Food Marketing Institute and the Grocery Manufacturers of America.

The GM/HBC Consumer Shopping Preferences 1990 report points up wide disparities in where consumers choose to shop for their non-foods. The report, based on a survey of 2,000 consumer households by Market Facts, Inc., was released Oct. 16 at the GM/HBC Conference and Educational Exposition.

The study underscores what the food industry has long suspected: that the perception—if not the reality—of higher prices cuts into sales of many non-foods categories offered by food stores, despite the powerful advantage of convenient, one-stop shopping supermarkets have in their arsenal.

Supermarkets were named as the primary outlet for oral care products, deodorants and shampoo by consumers in the survey. But in many of the other 16 key categories surveyed—including video cassettes, kitchen gadgets, school supplies and hosiery—food retailers are still losing out to drug and discount stores. Perceived higher prices were the culprit.

"By a wide margin, the major deterrent to supermarket purchase of non-food items is price—a loud and clear hindrance regardless of market area or shopper subgroup," the report concludes. "To encourage more purchase of such items in grocery stores, shoppers want lower everyday prices."

By the same token, the report notes, "the major reason by far for purchasing non-food items in a supermarket is convenience," and "the major draw for discount or mass merchandisers and discount drug stores is everyday low prices."

The study also found a strong unmet demand for such in-store services as pharmacies, postal stations and packing/shipping centers in food stores.

The survey prompted a strong reaction from a panel of 11 supermarket and supplier executives convened to discuss its findings. Several of the participants acknowledged the pricing problem, and said the supermarket industry could no longer rest on its advantages as a natural customer traffic center. They also agreed the industry faces big hurdles in overcoming the high-price image in non-foods, and several hinted at the possibility of a major shift in pricing policies—despite the current reliance of many food chains on their GM and H&BA sales to provide well over half the store's profits.

"We have to build a better price perception," said Jeff Manning, non-foods manager of Bashas' Food Markets in Phoenix. "In the short term, it's nice to sit back and collect your gross margins with the convenience approach to non-foods, but it's not the way to compete long-term."

Tim Snee of Ralphs Grocery Co. acknowledged, "It's the price perception that keeps [customers] from shopping from us [for non-foods]. We need to face this issue head-on; we can't keep wrapping ourselves in the 'convenience' flag."

"In the convenience aspect of the non-foods business, we win the game, but in the price aspect, we have a problem," Brian Joyce of Dominick's Finer Foods added in a question-answer session.

The failure of food stores to fully capitalize on their presence in non-foods—despite the fact that they already have those consumers in their stores to buy groceries—indicates that the supermarket industry is a long way from putting drug stores out of action. Panel members at the presentation urged supermarket non-foods managers to attack the problem by taking a hard look at their pricing and advertising policies; by getting more cooperation from top management; by building closer alliances with suppliers; and by taking more creative approaches to non-foods merchandising.

"It all boils down to customers getting value for their money," noted Bill Harris of Randall's Food and Drug. "Service, selection and quality are what we have going for us against the low-price angle of our competitors."

Which of these have you bought in the past three months?

(By sex and female work status)

	Total	Men	Women	Women: Working	Women: Non-working
Base	**2,000**	**400**	**1,600**	**952**	**646**
Oral care products	87%	81%	88%	90%	85%
Deodorants	84	78	86	89	80
Greeting cards	82	67	85	85	85
Shampoo	80	74	81	85	76
Non-prescription medication	70	59	73	74	72
Batteries/ flashlights	66	62	67	66	68
Light bulbs	61	59	62	62	61
Photo film	61	54	63	67	57
Skin care products	60	41	65	68	61
Cosmetics	54	16	64	68	58
Women's hosiery	52	15	62	69	51
School/home office supplies	49	44	50	56	40
Vitamins	44	34	46	45	48
Video cassettes	33	35	33	36	28
Kitchen gadgets	31	35	33	36	28
Cook/bakeware	21	19	22	22	21

Source: FMI/GMA study

Which of these have you bought in the past three months?

(Asked of 2,000 shoppers)

	Total	Age: 18–24	25–39	40–49	50–64	65-plus
Base	**2,000**	**48**	**744**	**392**	**425**	**380**
Oral care products	87%	94%	89%	91%	88%	76%
Deodorants	84	94	92	87	81	68
Greeting cards	82	71	82	84	81	80
Shampoo	80	94	91	83	76	58
Non-prescription medication	70	75	74	76	68	59
Batteries/flashlights	66	54	67	69	66	64
Light bulbs	61	48	60	67	64	57
Photo film	61	75	70	66	60	38
Skin care products	60	60	65	66	56	50
Cosmetics	54	48	56	61	56	43
Women's hosiery	52	40	54	62	51	42
School/home office supplies	49	50	53	58	47	31
Vitamins	44	31	45	44	44	42
Video cassettes	33	35	40	39	32	13
Kitchen gadgets	31	33	32	36	31	21
Cook/bakeware	21	25	23	22	20	17

Source: FMI/GMA study

Supermarket retailers seek non-foods savvy at 1st GM/HBC Conference

Continued from page 3

annual GM/HBC (health and beauty care) Conference sponsored by the Food Marketing Institute and the Grocery Manufacturers of America. The three-day event in mid-October drew a total of nearly 1,500 retailers, wholesalers, suppliers and brokers, and included both educational seminars and trade-floor dealmaking between buyers and vendors.

"I'm excited about this convention," FMI president Robert Aders told the gathering on opening day. "It marks a new direction in education at FMI, applying the magic of a convention to two of the most powerful categories in modern supermarketing."

Indeed, the creation of a separate event among food retailers to support non-foods merchandising and marketing signals the growing importance of GM and H&BA categories to the supermarket industry—and the growing determination among food chains to challenge drug stores on their own turf.

In that sense, the show was a pivotal event in the ongoing competition among trade classes and the blurring of lines between food, drug and discount stores. The conference marked the willingness of many food retailers to shift their strategies in the battle for GM and H&BA sales—even regarding long-held pricing policies. It underscored the growing status of non-foods managers. And it formally signaled the arrival of non-foods as an integral component of supermarket retailing; indeed, food and non-foods are rapidly approaching parity at some leading food chains.

'In the beginning. . .'

"In the beginning, the first grocers and supermarket operators were very much in the non-food business," Aders said. "The movement into GM/HBC products today is less a new direction than an effort to rediscover markets that were lost or never fully developed."

Echoing that theme was a conference participant from Schwegmann's in New Orleans. "Our goal is to allocate 40 percent of our space to non-foods," he said.

He was not alone. Conference speakers and participants from all sides of the food industry expressed a determination to capitalize on the inherent strengths of supermarkets to boost their $21 billion in non-foods sales. Said outgoing FMI chairman Dean Werries of Fleming Companies, "The competition is formidable—but we, too, bring to the marketplace numerous strengths: consumer awareness, technology, convenience, selection, one-stop shopping, and seeing our customers at least once a week."

Werries and other speakers urged non-foods managers to push for the opening of more pharmacies at their respective chains. "The single most effective step many grocers can take is to extend the health-care category and—where the demographics and competition are right—open a pharmacy," said the FMI chairman. "A pharmacy adds a new source of high-margin income, and it improves the sales of the entire HBC category—by as much as 40 percent in some cases."

Pharmacies urged

In a separate address, industry consultant Murray Raphel noted that only about 4,000 out of a possible 30,000 supermarkets have pharmacies. He urged non-foods managers to spur their companies to add more pharmacies and other key non-foods categories to build a complete business, including video departments, greeting cards, photo and books and magazines.

"The secret is not to be the best supermarket, but to have the best selection in targeted areas," Raphel said.

Speaker and consultant Harold Lloyd told his audience to put more spark in their GM and H&BA sales with a multi-pronged strategy. Calling non-foods "a very, very important part of [the store's] profitability," Lloyd urged non-foods managers to "merchandise the merchandise. . . and give your GM/HBC people a chance to be creative." Retailers and industry experts at the conference made no bones about the obvious lures offered by GM and H&BA categories: high margins, incremental revenues, and the ability to turn supermarkets into one-stop power centers.

The challenge to nonfood execs: winning more space and commitment for GM and H&BA from their bosses; overcoming high-price perceptions among consumers in the face of growing competition from deep-discounters like Phar-Mor; battling "category killers" like Wal-Mart and Toys "R" Us; coping with a flood of new-product introductions—nearly 12,000 last year alone; coping with the increasing fragmentation of the consumer base; and watching overall net margins in supermarkets shrink to a low of 0.71 percent in 1988–89.

Meanwhile, said Werries, the food industry is entering "a time of transition" and slowing growth. Store size is also growing at a slower space, he said.

"Maybe in the '90s," Werries said, "we will enter the one-stop shopping business."

FINANCIAL

SupeRx selling off Ariz. stores

Continued from page 1

Unlike SupeRx Corp., Medicare-Glaser has secured "post-petition" financing to pay for inventory needs. In fact, several lending sources have been secured, a spokesman at the Midwest chain confirmed.

The court under a cash collateral order has allowed both chains to use proceeds from sales to fund inventory and thus prevent secured creditors from claiming the revenues. But those proceeds aren't sufficient to meet Christmas' heavy inventory needs, Dworkin said.

Most of the Arizona drug stores are in and around Phoenix, while five are in Tuscon and two in Flagstaff. A 24th store, a liquor store in Scottsdale, will also be auctioned, as will all assets, including prescription files and third-party contracts, according to papers filed in court.

But some market sources said if the assets are sold piecemeal, the stores could lose at least one major third-party contract, with FHP, jointly shared with Walgreens. It accounts for about 50 percent of SupeRx's scripts, one source maintained.

Reportedly an inside middle management group is interested in making an offer. New owners will face a much tougher metro climate than SupeRx first encountered when management bought the Arizona stores from Kroger in 1986. Smith's, Albertson's, Phar-Mor and Drug Emporium have all entered the market since then.

SupeRx Corp. had closed seven of its 36 stores in June. Subsequently, four more were closed and one was sold, leaving it with 24.

SupeRx Corp., which sold stores in Alabama and Georgia last year, was forced into Chapter 11, after the collapse of Lincoln Savings & Loan.

Safeway's 3rd qtr. net income is up

OAKLAND, Calif. — Safeway's investment in the Vons supermarket chain helped third-quarter net income climb from last year's $7.1 million to $20.8 million for the period ended Sept. 8, the company reported, even though sales were essentially flat.

Sales for the quarter increased 4.6 percent to $3.5 billion. For the 36-week period, income climbed from $23.5 million to $59.4 million, on $10.2 billion in sales, a 4.4-percent increase. Same-store sales increased 3.9 percent for the quarter and 3.4 percent for the 36-week period, and gains were also noted for gross profit, operating profit, and operating cash flow.

The 35-percent equity investment in Vons was a prime factor for other income increasing from $1.1 million for the quarter to $12.0 million.

Interest expense for the quarter increased from $88.4 million to $91.2 million, and declined for the 36 weeks from $267.8 million to $261.4 million for the 36 weeks. The company attributed the 36-week performance to lower borrowings in the wake of its initial public offering of 11.5 million shares of common stock last April.

Nichols reports $21.5M net loss

NEW YORK — S.E. Nichols reported a net loss of $21.5 million for the three months ended August 4, on sales of $11.5 million.

The loss includes a $15.5 million provision for reorganization costs connected with the company's filing for Chapter 11 protection this past August. This quarter's figure compares with last year's net gain of $1.8 million, which included a $4.3 million gain from the discontinuance and sale of the company's F.R. Schreiber wholesale division.

The quarter's sales figure solely reflects activity from the company's new Pharmhouse deep discount super drug stores, a format which bowed last April. As such, the company noted, the figure is not comparable with last year's $51.4 million that the company's 34 discount department stores, no longer in operation, tallied.

S.E. Nichols' strategy has been to liquidate and close its discount department store base, and reopen the units as Pharmhouses. Currently, 19 Pharmhouse units operate in the mid-Atlantic region.

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MARKET DIARY:

Largest Dollar Gainer	Warner-Lambert	$ 6.38	Advances	32
Largest Dollar Loser	McKesson Corp.	$ – 3.63	Declines	21
Largest Percentage Gainer	Par Pharmaceutical	42.86%	Unchanged	4
Largest Percentage Loser	Zenith Labs	–23.53%	New highs	2
			New lows	20

	Close 10/9/90	Close 10/23/90	Net Change	Percent Change
Drug Store News Index	2807.05	2842.10	35.05	1.25
Dow Jones Industrial Average	2445.54	2494.06	48.52	1.98
Standard & Poor's 500-Stock Index	305.10	312.36	7.26	2.38
N.Y.S.E. Composite	167.41	170.50	3.09	1.85
Value Line Index	187.53	186.24	– 1.29	– 0.69

Source: Nordby International Inc., Boulder, Colo.

DRUG STORE NEWS INDEX

Exch	Company	Ticker Symbol	Closing Price 10/9/90	Closing Price 10/23/90	Net Change In Period	Percent Change In Period	P/E Ratio	Annual Dividend Rate	Annual Dividend Yield	Annual High	Annual Low
Chain store transactions											
OTC	Accuhealth Inc.	ACCU	6.50	5.13	– 1.38	– 21.15	– 256	0.00	0.00	7.56	2.88
OTC	Arbor Drugs (L)	ARBR	16.25	14.75	– 1.50	– 9.23	13	0.16	1.08	23.25	13.25
OTC	Big B (L)	BIGB	6.25	5.38	– 0.88	– 14.00	– 15	0.16	2.98	13.75	5.38
OTC	Drug Emporium	DEMP	8.00	8.13	0.13	1.56	13	0.12	1.48	11.00	6.25
NYS	Fay's Inc. (L)	FAY	7.75	7.25	– 0.50	– 6.45	10	0.20	2.76	12.00	7.25
ASE	Genovese Drug (L)	GDX.A	5.88	6.00	0.13	2.13	13	0.24	4.00	11.25	5.63
NYS	Longs Drug Stores	LDG	37.13	37.00	– 0.13	– 0.34	12	1.04	2.81	48.50	33.25
OTC	Medicine Shoppe (L)	MSII	17.75	18.50	0.75	4.23	17	0.24	1.30	26.75	17.00
NYS	Perry Drug	PDS	6.63	6.25	– 0.38	– 5.66	11	0.00	0.00	9.88	6.25
NYS	Rite Aid Corp.	RAD	31.00	31.88	0.88	2.82	15	0.88	2.76	39.00	29.50
NYS	Walgreen Co.	WAG	45.63	47.25	1.63	3.56	17	0.92	1.95	53.25	39.88
Wholesaler's transactions											
ASE	Bergen Brunswig	BBC	23.75	25.63	1.88	7.89	14	0.40	1.56	29.63	20.50
OTC	Bindley Western Ind.	BIND	11.63	11.75	0.13	1.08	17	0.04	0.34	14.25	9.38
OTC	Cardinal Distribution (H)	CDIC	21.25	24.25	3.00	14.12	21	0.08	0.33	24.25	15.88
OTC	Durr-Fillauer	DUFM	24.13	23.00	– 1.13	– 4.66	14	0.28	1.22	27.00	19.50
ASE	Ketchum	KCH	1.50	1.50	0.00	0.00	– 1	0.00	0.00	5.13	1.50
NYS	McKesson Corp. (L)	MCK	32.13	28.50	– 3.63	– 11.28	13	1.60	5.61	38.38	28.50
ASE	Moore Medical (L)	MMD	4.25	3.63	– 0.63	– 14.71	– 5	0.00	0.00	10.25	3.50
NYS	Owens & Minor	OMI	11.50	13.25	1.75	15.22	18	0.24	1.81	14.63	10.63
Manufacturer's transactions											
NYS	Abbott Labs	ABT	40.63	43.63	3.00	7.38	20	0.84	1.93	45.63	31.25
NYS	American Home Products	AHP	45.25	48.88	3.63	8.01	13	2.12	4.34	55.13	43.00
NYS	Baxter International	BAX	24.88	26.38	1.50	6.03	– 91	0.64	2.43	27.50	20.50
OTC	Block Drugs Co. (L)	BLOCA	32.00	31.50	– 0.50	– 1.56	12	0.68	2.16	38.00	30.50
ASE	Bolar Pharmaceutical	BLR	4.63	4.25	– 0.38	– 8.11	– 25	0.04	0.94	20.88	3.50
NYS	Bristol-Myers Squibb	BMY	59.13	62.63	3.50	5.92	34	2.12	3.39	65.88	50.50
NYS	Carter-Wallace	CAR	48.50	49.50	1.00	2.06	15	0.92	1.86	60.50	44.88
ASE	Columbia Labs (L)	COB	5.13	4.75	– 0.38	– 7.32	– 4	0.00	0.00	17.88	3.63
ASE	Forest Labs	FRX	42.63	43.88	1.25	2.93	28	0.00	0.00	48.38	33.63
ASE	Halsey Drug	HDG	3.31	2.81	– 0.50	– 15.09	94	0.00	0.00	6.94	2.13
NYS	ICN Pharmaceutical	ICN	2.88	2.88	0.00	0.00	0	0.00	0.00	6.50	2.50
ASE	Lee Pharmaceutical (L)	LPH	1.38	1.38	0.00	0.00	– 5	0.00	0.00	3.00	1.25
ASE	P. Leiner Nutrition (L)	PLI	7.13	7.13	0.00	0.00	9	0.00	0.00	13.38	7.00
NYS	Lilly Eli Co.	LLY	74.50	75.00	0.50	0.67	20	1.64	2.19	90.38	58.75
NYS	Marion Labs	MKC	31.75	31.38	– 0.38	– 1.18	22	0.80	2.55	36.00	21.00
NYS	Merck Co.	MRK	77.13	81.38	4.25	5.51	19	2.24	2.75	91.13	67.00
NYS	Mylan Labs	MYL	18.25	18.88	0.63	3.42	23	0.20	1.06	25.38	13.75
NYS	Par Pharmaceutical (L)	PRX	3.50	5.00	1.50	42.86	– 5	0.00	0.00	8.25	3.38
NYS	Pfizer Inc. (H)	PFE	73.88	77.38	3.50	4.74	18	2.40	3.10	79.25	54.50
NYS	Rhone-Poulenc Rorer	RPR	61.13	65.00	3.88	6.34	31	0.84	1.29	78.25	39.75
NYS	Schering Plough	SGP	45.63	48.38	2.75	6.03	20	1.12	2.32	50.75	36.75
NYS	Syntex Corp.	SYN	53.25	57.25	4.00	7.51	19	1.60	2.79	63.75	43.25
OTC	Taro-Vit Industries	TAROF	2.50	2.88	0.38	15.00	– 41	0.00	0.00	2.88	0.88
NYS	Upjohn Co.	UPJ	37.63	36.88	– 0.75	– 1.99	19	1.00	2.71	44.63	33.00
NYS	Warner-Lambert	WLA	59.88	66.25	6.38	10.65	19	1.52	2.29	70.13	49.63
OTC	Zenith Labs	ZENL	8.50	6.50	– 2.00	– 23.53	0	0.00	0.00	14.00	3.50
Other retailer transactions											
NYS	Albertson's	ABS	29.88	31.50	1.63	5.44	20	0.48	1.52	37.63	24.38
NYS	American Stores (L)	ASC	46.63	46.00	– 0.63	– 1.34	11	1.12	2.43	71.50	46.00
NYS	Giant Food	GFS.A	22.75	24.50	1.75	7.69	13	0.60	2.45	29.88	21.13
NYS	Great Atlantic&Pacific Tea (L)	GAP	44.38	42.75	– 1.63	– 3.66	11	0.80	1.87	65.38	41.38
NYS	K mart (L)	KM	25.38	25.25	– 0.13	– 0.49	15	1.72	6.81	37.25	23.38
NYS	Kroger (L)	KR	12.00	12.38	0.38	3.13	48	0.00	0.00	17.00	10.63
NYS	Melville Corp. (L)	MES	34.75	36.38	1.63	4.68	10	1.40	3.85	57.75	32.75
OTC	Fred Meyer (L)	MEYR	12.25	11.00	– 1.25	– 10.20	– 52	0.00	0.00	19.00	10.25
NYS	Penney, JC (L)	JCP	39.13	42.88	3.75	9.58	7	2.64	6.16	75.63	37.38
NYS	Safeway (L)	SWY	12.13	11.50	– 0.63	– 5.15	29	0.00	0.00	16.88	11.50
NYS	Smith's Food & Drug	SFD	25.50	27.38	1.88	7.35	22	0.28	1.02	34.50	21.38
NYS	Wal-Mart	WMT	25.50	28.75	3.25	12.75	27	0.12	0.42	36.75	20.00

Note: Rorer Group changed its name to Rhone-Poulenc Rorer.
Key: (H) = New high in period. (L) = New low in period. (d) = Deficit. NYS = New York. ASE = American. OTC = Over the counter. (s) = Reflects stock split.
Source: Nordby International, Inc., Boulder, Colorado